The Pakistan Credit Rating Agency Limited

Rating Report

Sadiq Oil Extraction (Pvt.) Ltd

Report Contents

Rating History

Dissemination Date	Long Term Rating	Short Term Rating	Outlook	Action	Rating Watch
11-Feb-2021	BBB-	A3	Stable	Downgrade	YES
07-Aug-2020	BBB	A2	Negative	Maintain	YES
10-Aug-2019	BBB	A2	Stable	Maintain	-
20-Mar-2019	BBB	A2	Stable	Maintain	-
18-Sep-2018	BBB	A2	Stable	Maintain	-
22-Mar-2018	BBB	A2	Stable	Initial	-

Rating Rationale and Key Rating Drivers

The ratings reflect Sadiq Oil's association with an established and integrated poultry group, Sadiq Group. The Group has significant presence along poultry supply chain and Sadiq Oil supports its vertical integration strategy. Initially, venturing in the branded oil segment (SB Gold) benefitted the Company. However, lately, the Company's topline contracted and stems from refining segment only. As solvent extraction plant is non-operational since Aug-20, the Company is relying on external sources, for semi-refined oil, to manage the operations of its refining segment. On the industry front, demand for edible oil along with sales and recovery of soy meal was impacted during lockdown in the latter half of FY20 due to Covid-19. However, being a staple food item, edible oil demand from household did not drop. Players had sufficient inventories to fulfill demand. Lately, demand from all avenues have picked up. Also, soy meal recovery has improved. However, high dependence of imported raw material, oilseed, exposes players to volatility in international oilseed prices and inherent risk of currency fluctuations. Since Jul-20, Soybean oilseed prices surged by ~51%, accompanied by rupee devaluation. Currently, Sadiq Oil margins are squeeze and are expected to remain low. Until the extraction plant becomes fully operational, sales and recovery of soy meal are expected to remain under pressure. Going forward, players in the refining segment may benefit from increase in refined edible oil and meal prices. However, branded and packaged oil segment is expected to remain competitive. Financial risk profile of Sadiq Oil is characterized by high leveraging, both to fund the increasing working capital needs and expansion activities. Coverages are low and are expected to remain stressed. Working capital cycle remains stretched but drives comfort from Groups integrated presence in poultry sector. The Company has availed debt relief measures of SBP through deferment/restructuring of loans. This is expected to provide relief in terms of debt servicing and ease pressure on cashflow. Further, interest rate cut will lessen debt servicing burden. The Company has been assigned 'Rating Watch' as profitability and cashflows are expected to remain under stress. PACRA will monitor the situation closely and update the ratings accordingly.

The ratings are dependent on the management's ability to manage business risk, while sustaining business margins in prevailing challenges. Moreover, governance framework needs attention. Going forward, generating sustainable operational cashflows is important. Meanwhile, a prudent financial strategy to meet financial obligations remains critical.

Disclosure	
Name of Rated Entity	Sadiq Oil Extraction (Pvt.) Ltd
Type of Relationship	Solicited
Purpose of the Rating	Entity Rating
Applicable Criteria	Methodology | Corporate Ratings(Jun-20),Methodology | Correlation Between Long-Term And Short-Term Rating Scale(Jun-20),Criteria | Rating Modifier(Jun-20)
Related Research	Sector Study | Edible Oil(Feb-20)
Rating Analysts	Faiqa Qamar | faiqa.qamar@pacra.com | +92-42-35869504

Profile

Legal Structure Sadiq Oil Extraction (Pvt.) Ltd. ('Sadiq Oil' or 'the Company') was incorporated in 2013 as a private limited company.

Background Sadiq Group came into existence as a small scale family business and became formally operational in Apr, 1975. Today, the Group is known as one of the leaders in poultry operating under the brand name of Sadiq.

Operations Sadiq Oil primarily extracts and produces two different products in three variants. These include: Semi-refined Soybean oil and Soya Meal, Semi refined Canola Oil and Canola Meal and Semi-refined Sunflower Oil and Sunflower Meal. Company imports 90-95% seeds from the USA, Brazil and Malaysia. Along with this, they have set up a Physical Refinery, Soap and Ghee plant. The Company successfully completed the trial run for Physical Refinery and started commercial operations from Feb-19. Ghee Plant also became commercially operational during Apr-19.

Ownership

Ownership Structure Post Dr. Sadiq's demise, shareholding resides with Dr. Sadiq's wife Mrs. Saadia Sadiq (22%) and her sons; M. Arsal (25%), M. Sanan (27%) and M. Saad (27%). Previously the Company's major shareholding vested with Dr. M. Sadiq (90.58%), followed by his two sons, Mr. Asif Zubair (3.88%) and Mr. Salman Sadiq (5.54%).

Stability Ownership of the business has changed during FY20 and currently resides with Dr. M. Sadiq's wife, Mrs. Saadia Sadiq and her sons. As the current owners have been recently inducted, thus, would require time to develop a keen know-how of the business.

Business Acumen Sadiq Group has experienced multiple business cycles and have maintained their position since 1975. The Group's broiler farms are among the highest chick producers in Pakistan. Currently, there are seven companies, one AOP and one trust working under Sadiq Group. All are operating in various segments of the poultry chain.

Financial Strength At the end of FY20, Sadiq Group has a consolidated equity of PKR 11bln, while, manages an asset base of above PKR 40bln. Through its diverse set of businesses, it is generating a turnover of almost PKR 43bln.

Governance

Board Structure Post Dr. Sadiq's demise, the Board structure is yet to evolve. Previously, Sadiq Oil's Board was dominated by the sponsoring family and lacked independence, indicating room for improvement in the governance framework.

Members' Profile Previously, the Board was Chaired by Dr. M. Sadiq, Mr. Asif Zubair and Mr. Salman Sadiq. Directors of the Company, were qualified individuals possessing significant industry knowledge relating to poultry and allied industries.

Board Effectiveness During FY20, 4 Board meetings, with full/majority attendance, were held to discuss pertinent matters and make strategic decisions.

Financial Transparency Sadiq Oil's external auditors, Muniff Ziauddin and Co. Chartered Accountants, have expressed an unqualified opinion on the financial reports for FY20. The firm has been QCR rated by ICAP and is in Category 'A' of SBP panel.

Management

Organizational Structure The Company's sales and production are monitored by GM Production. Whereas, support departments work as shared services for the Group. All departments eventually report to the CEO.

Management Team For the time being, the Company is headed by Dr. M. Sadiq's son, Mr. Muhammad Arsal. Previously, Dr. M. Sadiq headed the Group as CEO. He has head several national and international forums and was also recognized as a leading authority on poultry sciences and avian welfare.

Effectiveness Management ensure effectiveness through Technical, Interview and Operational committees, established at the Group level. Each comprises 4 members.

MIS Two financial software, set up by Sidat Hyder, are used at the Group level. However, for internal dissemination, information is documented when required.

Control Environment Internal audit department has been established at group level to ensure controls. The Company's entire extraction and refining facilities are fully automated.

Business Risk

Industry Dynamics Pakistan's edible oil industry is heavily reliant on imports since oilseeds account for ~80% of the cost of production. Additionally, low local oil seed production and lower yields have pushed farmers away from oilseed, further increasing dependence on imports. Demand for edible oil along with sales and recovery of soy meal was impacted during lockdown in the later half of FY20 due to Covid outbreak. However, being a staple food item, edible oil demand from household did not drop. Lately, demand from all avenues for edible oil has picked up. Also, soy meal recovery has improved supported by increase in prices of poultry products. On the supply side, oilseeds are imported primarily from USA and Brazil. Industry players have sufficient inventories to fulfill demand. International prices of soybean have picked up (~51%), during FY21, while the rupee has depreciated ~ 9%, since Jan-20. Sales are expected to remain stable. Margins and profitability will improve for players in soybean oil segment. Interest rate cut and SBP initiatives like restructuring/deferment of loans will provide sufficient respite to the industry players.

Relative Position As per the All Pakistan Solvent Extractions' Association, there are 103 solvent extraction companies out of which only 30 are extracting edible oil. Among these 30 companies, Sadiq Oil Extraction (Pvt.) Limited holds a share of 3%.

Revenues Sadiq Oil generates revenue by selling edible oil in semi-refined and refined form, meal and soap sludge. Semi-refined oil is sold to the brokers on cash basis and directly in bulk quantities to customers. Majority meal produced during the oil extraction process is consumed by Sadiq Feeds (forwardly integrated venture). During FY20, major chunk of revenue (56%) was generated by selling meal to poultry/cattle feed industry; followed by Soybean edible oil sale (25%). Revenue in FY20 declined by 35% to PKR 7.1bln (FY19: PKR 11bln) due to lower volume. During 2QFY21, revenues are expected to be further impacted as they stem from refining segment only.

Margins Gross margin increased despite an increase in input cost after rupee devaluation during FY20 (FY20: 15%, FY19: 7%) as higher input cost was passed on to the customers. The Company's operating margins also posted a surge (FY20: 13%, FY19: 7%) due to controlled costs of production. Significant increase in the finance cost (FY20: PKR 824mln, FY19: PKR 577mln) on account of high borrowings impacted the net margins (FY20: -0.4%, FY19: 0.1%). The Company booked net loss of PKR 26mln during FY20 (FY19: Profit PKR 14mln). During 2QFY21, margins are expected to squeeze as the Company is procuring semi-refined oil from external sources.

Sustainability The Company's crushing plant is non-operational since Aug-20 and financial profile of the Company may be further impacted. Sustaining Group synergy and generating cash flows remain crucial. However, the Company aims to optimize utilization of its refining capacity along with keeping costs under control.

Financial Risk

Working Capital Sadiq Oil's inventory days are high as a buffer stock of 5-6 months is being maintained to counter rise in oilseed prices (FY20: 255 days, FY19: 126 days). It operates with brokers on cash basis for oil sales while a credit period of 50-60 days is given for meal sales, of which 98% are sold to Sadiq Feeds. The average receivable days have significantly risen to 78 days (FY19: 35 days) as feed business faced challenges. Majorly raw materials are procured on advance basis, thus creditor days remain low at 7 (FY19: 2 days). This leads to a net cash cycle of 326 days (FY19: 159 days). The Company utilized short-term borrowings to fund its working capital needs. In 2QFY21, the Company is procuring semi-refined oil from external sources to manage its refining operations as the crushing plant is non-operational.

Coverages Interest coverage decreased to 1.2x during FY20 (FY19: 1.3x) due increase in finance cost (FY20: PKR 824mln, FY19: PKR 577mln) due to high effective interest rate. Core and Total Coverage stood at 1.2x during FY20 (FY19: 1.1x), due to lower short term borrowings and rise in free cashflows (FY20: PKR 1,024mln, FY19: PKR 713mln). Going forward, coverage ratios will deteriorate due to stressed cash flows.

Capitalization The Company is highly leveraged owing to it's expansion and need for credit facilities for working capital requirements (FY20: 74%, FY19: 84%). Debt majorly comprises of short term 96% (FY19: 97%). Out of this, short term debt stood at PKR 5,045mln (FY19: PKR 6,090mln). The leveraging reduced as Sponsors injected equity of PKR 670mln during FY20. In 2QFY21, leveraging ratio is expected to further increase.

PACRA

The Pakistan Credit Rating Agency Limited

Financial Summary
PKR mln

Sadiq Oil Extraction Limited Edible Oil	Jun-20 12M	Mar-20 9M	Dec-19 6M	Sep-19 3M	Jun-19 12M	Mar-19 9M	Dec-18 6M	Jun-18 12M
A BALANCE SHEET								
1 Non-Current Assets	1,313	1,280	1,312	1,326	1,336	1,222	1,211	999
2 Investments	-	-	-	-	-	-	-	-
3 Related Party Exposure	-	-	-	-	-	-	-	-
4 Current Assets	7,397	6,251	6,605	6,771	6,506	5,396	4,832	3,969
a Inventories	*5,940*	*3,882*	*4,066*	*4,907*	*4,003*	*4,407*	*4,015*	*3,404*
b Trade Receivables	*1,005*	*1,907*	*2,077*	*1,398*	*2,048*	*108*	*188*	*45*
5 Total Assets	8,710	7,531	7,917	8,096	7,842	6,618	6,043	4,968
6 Current Liabilities	1,596	745	584	854	391	445	840	527
a Trade Payables	*174*	*355*	*225*	*472*	*103*	*79*	*63*	*40*
7 Borrowings	5,209	4,817	5,499	5,641	6,251	5,007	4,270	2,940
8 Related Party Exposure	73	-	-	28	-	-	-	834
9 Non-Current Liabilities	-	7	7	7	7	-	-	-
10 Net Assets	1,832	1,962	1,827	1,567	1,193	1,166	933	668
11 Shareholders' Equity	1,832	1,962	1,827	1,567	1,193	1,166	933	668
B INCOME STATEMENT								
1 Sales	7,116	8,423	5,424	2,797	10,862	7,800	5,854	6,407
a Cost of Good Sold	*(6,080)*	*(7,734)*	*(4,995)*	*(2,585)*	*(10,075)*	*(7,191)*	*(5,442)*	*(5,964)*
2 Gross Profit	1,035	689	429	212	787	609	412	443
a Operating Expenses	(127)	(149)	(96)	(26)	(69)	(36)	(22)	(31)
3 Operating Profit	908	540	333	186	718	574	391	412
a Non Operating Income or (Expense)	*(4)*	*231*	*213*	*99*	*(6)*	*(3)*	*(7)*	*(7)*
4 Profit or (Loss) before Interest and Tax	904	770	547	284	712	570	383	405
a Total Finance Cost	*(824)*	*(680)*	*(483)*	*(249)*	*(577)*	*(369)*	*(214)*	*(302)*
b Taxation	*(106)*	-	-	-	*(121)*	*(61)*	*(26)*	*(58)*
6 Net Income Or (Loss)	(26)	90	64	35	14	141	143	45
C CASH FLOW STATEMENT								
a Free Cash Flows from Operations (FCFO)	*1,024*	*853*	*600*	*315*	*713*	*624*	*351*	*263*
b Net Cash from Operating Activities before Working Capital	*345*	*232*	*156*	*128*	*258*	*327*	*153*	*7*
c Changes in Working Capital	*94*	*554*	*62*	*158*	*(3,671)*	*(2,461)*	*(1,341)*	*(1,626)*
1 Net Cash provided by Operating Activities	439	786	218	286	(3,413)	(2,133)	(1,188)	(1,620)
2 Net Cash (Used in) or Available From Investing Activities	(74)	(43)	(41)	(19)	(331)	(109)	(279)	(335)
3 Net Cash (Used in) or Available From Financing Activities	(345)	(755)	(182)	(271)	3,744	2,256	1,461	1,964
4 Net Cash generated or (Used) during the period	20	(12)	(4)	(4)	0	14	(7)	10
D RATIO ANALYSIS								
1 Performance								
a Sales Growth (for the period)	-34.5%	3.4%	-0.1%	3.0%	69.5%	62.3%	82.8%	45.1%
b Gross Profit Margin	14.6%	8.2%	7.9%	7.6%	7.2%	7.8%	7.0%	6.9%
c Net Profit Margin	-0.4%	1.1%	1.2%	1.3%	0.1%	1.8%	2.4%	0.7%
d Cash Conversion Efficiency (FCFO adjusted for Working C	15.7%	16.7%	12.2%	16.9%	-27.2%	-23.5%	-16.9%	-21.3%
*e Return on Equity [Net Profit Margin * Asset Turnover * (T*	-1.5%	6.0%	7.0%	9.2%	1.5%	18.4%	33.6%	9.5%
2 Working Capital Management								
a Gross Working Capital (Average Days)	333	192	205	202	161	140	119	128
b Net Working Capital (Average Days)	326	185	200	192	159	138	118	126
c Current Ratio (Current Assets / Current Liabilities)	4.6	8.4	11.3	7.9	16.6	12.1	5.8	7.5
3 Coverages								
a EBITDA / Finance Cost	1.3	1.3	1.3	1.3	1.4	1.8	2.3	1.6
b FCFO / Finance Cost+CMLTB+Excess STB	1.2	1.0	1.2	1.2	1.1	1.6	1.2	0.8
c Debt Payback (Total Borrowings+Excess STB) / (FCFO-Fir	1.2	1.8	2.6	0.6	1.1	0.4	0.9	-25.1
4 Capital Structure								
a Total Borrowings / (Total Borrowings+Shareholders' Equit	74.2%	71.1%	75.1%	78.3%	84.0%	81.1%	82.1%	85.0%
b Interest or Markup Payable (Days)	148.6	105.4	86.5	92.2	122.8	107.0	75.4	81.4
c Entity Average Borrowing Rate	14.9%	15.8%	18.0%	20.2%	12.4%	12.0%	10.6%	9.5%

Credit Rating

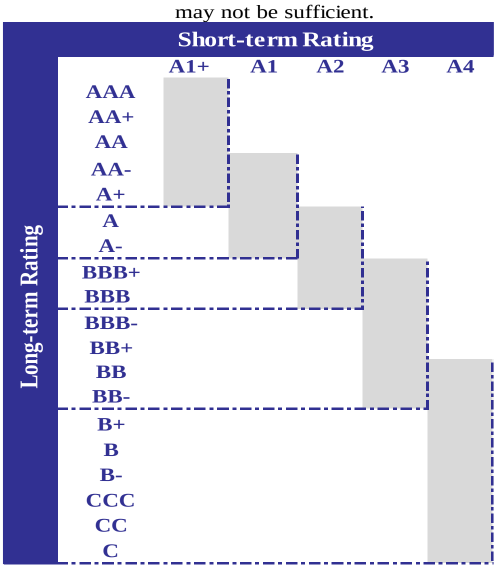
Credit rating reflects forward-looking opinion on credit worthiness of underlying entity or instrument; more specifically it covers relative ability to honor financial obligations. The primary factor being captured on the rating scale is relative likelihood of default.

Long-term Rating

Scale	Definition
AAA	**Highest credit quality.** Lowest expectation of credit risk. Indicate exceptionally strong capacity for timely payment of financial commitments
AA+ AA AA-	**Very high credit quality.** Very low expectation of credit risk. Indicate very strong capacity for timely payment of financial commitments. This capacity is not significantly vulnerable to foreseeable events.
A+ A A-	**High credit quality.** Low expectation of credit risk. The capacity for timely payment of financial commitments is considered strong. This capacity may, nevertheless, be vulnerable to changes in circumstances or in economic conditions.
BBB+ BBB BBB-	**Good credit quality.** Currently a low expectation of credit risk. The capacity for timely payment of financial commitments is considered adequate, but adverse changes in circumstances and in economic conditions are more likely to impair this capacity.
BB+ BB BB-	**Moderate risk.** Possibility of credit risk developing. There is a possibility of credit risk developing, particularly as a result of adverse economic or business changes over time; however, business or financial alternatives may be available to allow financial commitments to be met.
B+ B B-	**High credit risk.** A limited margin of safety remains against credit risk. Financial commitments are currently being met; however, capacity for continued payment is contingent upon a sustained, favorable business and economic environment.
CCC CC C	**Very high credit risk.** Substantial credit risk "CCC" Default is a real possibility. Capacity for meeting financial commitments is solely reliant upon sustained, favorable business or economic developments. "CC" Rating indicates that default of some kind appears probable. "C" Ratings signal imminent default.
D	Obligations are currently in default.

Short-term Rating

Scale	Definition
A1+	The highest capacity for timely repayment.
A1	A strong capacity for timely repayment.
A2	A satisfactory capacity for timely repayment. This may be susceptible to adverse changes in business, economic, or financial conditions.
A3	An adequate capacity for timely repayment. Such capacity is susceptible to adverse changes in business, economic, or financial
A4	The capacity for timely repayment is more susceptible to adverse changes in business, economic, or financial conditions. Liquidity may not be sufficient.



The correlation shown is indicative and, in certain cases, may not hold.

Outlook (Stable, Positive, Negative, Developing) Indicates the potential and direction of a rating over the intermediate term in response to trends in economic and/or fundamental business/financial conditions. It is not necessarily a precursor to a rating change. 'Stable' outlook means a rating is not likely to change. 'Positive' means it may be raised. 'Negative' means it may be lowered. Where the trends have conflicting elements, the outlook may be described as 'Developing'.

Rating Watch Alerts to the possibility of a rating change subsequent to, or, in anticipation of some material identifiable event with indeterminable rating implications. But it does not mean that a rating change is inevitable. A watch should be resolved within foreseeable future, but may continue if underlying circumstances are not settled. Rating watch may accompany rating outlook of the respective opinion.

Suspension It is not possible to update an opinion due to lack of requisite information. Opinion should be resumed in foreseeable future. However, if this does not happen within six (6) months, the rating should be considered withdrawn.

Withdrawn A rating is withdrawn on a) termination of rating mandate, b) the debt instrument is redeemed, c) the rating remains suspended for six months, d) the entity/issuer defaults., or/and e) PACRA finds it impractical to surveill the opinion due to lack of requisite information.

Harmonization A change in rating due to revision in applicable methodology or underlying scale.

Surveillance. Surveillance on a publicly disseminated rating opinion is carried out on an ongoing basis till it is formally suspended or withdrawn. A comprehensive surveillance of rating opinion is carried out at least once every six months. However, a rating opinion may be reviewed in the intervening period if it is necessitated by any material happening.

Note. This scale is applicable to the following methodology(s):

Entities

a) Broker Entity Rating
b) Corporate Rating
c) Financial Institution Rating
d) Holding Company Rating
e) Independent Power Producer Rating
f) Microfinance Institution Rating
g) Non-Banking Finance Companies (NBFCs) Rating

Instruments

a) Basel III Compliant Debt Instrument Rating
b) Debt Instrument Rating
c) Sukuk Rating

Regulatory and Supplementary Disclosure

(Credit Rating Companies Regulations,2016)

Rating Team Statements

(1) Rating is just an opinion about the creditworthiness of the entity and does not constitute recommendation to buy, hold or sell any security of the entity rated or to buy, hold or sell the security rated, as the case may be | Chapter III; 14-3-(x)

2) **Conflict of Interest**

i. The Rating Team or any of their family members have no interest in this rating | Chapter III; 12-2-(j)

ii. PACRA, the analysts involved in the rating process and members of its rating committee, and their family members, do not have any conflict of interest relating to the rating done by them | Chapter III; 12-2-(e) & (k)

iii. The analyst is not a substantial shareholder of the customer being rated by PACRA [Annexure F; d-(ii)] Explanation: for the purpose of above clause, the term “family members” shall include only those family members who are dependent on the analyst and members of the rating committee

Restrictions

(3) No director, officer or employee of PACRA communicates the information, acquired by him for use for rating purposes, to any other person except where required under law to do so. | Chapter III; 10-(5)

(4) PACRA does not disclose or discuss with outside parties or make improper use of the non-public information which has come to its knowledge during business relationship with the customer | Chapter III; 10-7-(d)

(5) PACRA does not make proposals or recommendations regarding the activities of rated entities that could impact a credit rating of entity subject to rating | Chapter III; 10-7-(k)

Conduct of Business

(6) PACRA fulfills its obligations in a fair, efficient, transparent and ethical manner and renders high standards of services in performing its functions and obligations; | Chapter III; 11-A-(a)

(7) PACRA uses due care in preparation of this Rating Report. Our information has been obtained from sources we consider to be reliable but its accuracy or completeness is not guaranteed. PACRA does not, in every instance, independently verifies or validates information received in the rating process or in preparing this Rating Report.

(8) PACRA prohibits its employees and analysts from soliciting money, gifts or favors from anyone with whom PACRA conducts business | Chapter III; 11-A-(q)

(9) PACRA ensures before commencement of the rating process that an analyst or employee has not had a recent employment or other significant business or personal relationship with the rated entity that may cause or may be perceived as causing a conflict of interest; | Chapter III; 11-A-(r)

(10) PACRA maintains principal of integrity in seeking rating business | Chapter III; 11-A-(u)

(11) PACRA promptly investigates, in the event of a misconduct or a breach of the policies, procedures and controls, and takes appropriate steps to rectify any weaknesses to prevent any recurrence along with suitable punitive action against the responsible employee(s) | Chapter III; 11-B-(m)

Independence & Conflict of interest

(12) PACRA receives compensation from the entity being rated or any third party for the rating services it offers. The receipt of this compensation has no influence on PACRA´s opinions or other analytical processes. In all instances, PACRA is committed to preserving the objectivity, integrity and independence of its ratings. Our relationship is governed by two distinct mandates i) rating mandate - signed with the entity being rated or issuer of the debt instrument, and fee mandate - signed with the payer, which can be different from the entity

(13) PACRA does not provide consultancy/advisory services or other services to any of its customers or to any of its customers’ associated companies and associated undertakings that is being rated or has been rated by it during the preceding three years unless it has adequate mechanism in place ensuring that provision of such services does not lead to a conflict of interest situation with its rating activities; | Chapter III; 12-2-(d)

(14) PACRA discloses that no shareholder directly or indirectly holding 10% or more of the share capital of PACRA also holds directly or indirectly 10% or more of the share capital of the entity which is subject to rating or the entity which issued the instrument subject to rating by PACRA; | Reference Chapter III; 12-2-(f)

(15) PACRA ensures that the rating assigned to an entity or instrument is not be affected by the existence of a business relationship between PACRA and the entity or any other party, or the non-existence of such a relationship | Chapter III; 12-2-(i)

(16) PACRA ensures that the analysts or any of their family members shall not buy or sell or engage in any transaction in any security which falls in the analyst’s area of primary analytical responsibility. This clause shall, however, not be applicable on investment in securities through collective investment schemes. | Chapter III; 12-2-(l)

(17) PACRA has established policies and procedure governing investments and trading in securities by its employees and for monitoring the same to prevent insider trading, market manipulation or any other market abuse | Chapter III; 11-B-(g)

Monitoring and review

(18) PACRA monitors all the outstanding ratings continuously and any potential change therein due to any event associated with the issuer, the security arrangement, the industry etc., is disseminated to the market, immediately and in effective manner, after appropriate consultation with the entity/issuer; | Chapter III | 18-(a)

(19) PACRA reviews all the outstanding ratings on semi-annual basis or as and when required by any creditor or upon the occurrence of such an event which requires to do so; | Chapter III | 18-(b)

(20) PACRA initiates immediate review of the outstanding rating upon becoming aware of any information that may reasonably be expected to result in downgrading of the rating; | Chapter III | 18-(c)

(21) PACRA engages with the issuer and the debt securities trustee, to remain updated on all information pertaining to the rating of the entity/instrument; | Chapter III | 18-(d)

Probability of Default

(22) PACRA´s Rating Scale reflects the expectation of credit risk. The highest rating has the lowest relative likelihood of default (i.e, probability). PACRA´s transition studies capture the historical performance behavior of a specific rating notch. Transition behavior of the assigned rating can be obtained from PACRA´s Transition Study available at our website. (www.pacra.com). However, actual transition of rating may not follow the pattern observed in the past | Chapter III | 14-(f-VII)

Proprietary Information